

IRRIGATION SYSTEM MODERNIZATION PROJECT

IMPLEMENTED BY THE ARMENIAN TERRITORIAL DEVELOPMENT FUND THROUGH ITS WATER SECTOR  
PROJECTS IMPLEMENTATION BRANCH

Special Purpose Financial Statements  
and  
Independent Auditor's Report

for the year ended 31 December 2020

YEREVAN  
June 2021

## IRRIGATION SYSTEM MODERNIZATION PROJECT

### EDB CREDIT

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## INDEPENDENT AUDITOR'S REPORT

To the management of "Irrigation System Modernization Project" ("Project")

### **Opinion**

We have audited the accompanying special purpose Financial Statements of the "Irrigation System Modernization Project" ("Project") financed by Credit Agreement signed in October 16, 2015 between the Republic of Armenia and Eurasian Development Bank ("Financing Agreement"), and implemented by the Armenian Territorial Development Fund (ATDF) through its "Water Sector Projects Implementation Branch" (WS PIB), which comprise the statement of cash receipts and payments, the statement of uses of funds by Project activity for the year ended 31 December 2020, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the special purpose financial statements present fairly in all material respects the cash receipts and payments of the Project for the year ended 31 December 2020 in accordance with International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting*, (IPSAS-Cash Basis).

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) as issued by International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Project in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled out other ethical requirements in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter- Cash Basis of Accounting**

We draw attention to Note 2 to the financial statements, which describes that financial statements are prepared in accordance with cash basis framework, as a result, they may not be suitable for another purposes. Our opinion is not modified in respect of this matter.

### **Emphasis of Matter- Change in Project Implementing Agency**

Without qualifying our opinion, we draw your attention to Note 1.4 of these special purpose financial statements disclosing that change in project implementing agency from 14 January 2020.

### **Management's Responsibility for the Special Purpose Financial Statements**

The management of the Project is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with IPSAS-Cash Basis issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC), and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatements, whether due to fraud or error.







Irrigation System Modernization Project  
EDB CREDIT  
Statement of cash receipts and payments  
For the year 31 December 2020  
(Amounts are shown in USD)

	Actual		Planned		Variance		PAD
	Reporting year	Cumulative as at 31 Dec 2020	Reporting year	Cumulative as at 31 Dec 2020	Reporting year	Cumulative as at 31 Dec 2020	
<b>OPENING CASH BALANCE</b>							
Special Account (EDB Credit)	4,585,329.36	-					
Project Account (GOA)	-	-					
Project Account (Community)	278,991.35	-					
	<b>4,864,320.71</b>	-					
<b>Sources of Funds</b>							
EDB Credit	10.1 6,536,280.96	16,022,954.07					
Government of RoA	10.2 1,401,508.16	2,252,539.76					
Community	10.3 830,101.73	1,109,796.32					
<b>TOTAL FUNDS</b>	<b>8,767,890.85</b>	<b>19,385,290.15</b>					
Foreign currency loss	(154,849.19)	(157,771.21)					
<b>Uses of funds</b>							
9							
1. Goods, works, services, trainings, and PIU operating costs	8,573,941.51	13,475,285.26	11,954,728.20	16,856,071.95	(3,380,786.69)	(3,380,786.69)	40,000,000.00
2. Taxes and other Mandatory Payments	1,291,647.81	2,140,460.63	1,387,126.94	2,235,939.76	(95,479.13)	(95,479.13)	8,400,000.00
3. Co-financing of the civil works part 3 of the project	493,451.45	493,451.45	493,451.45	493,451.45	-	-	1,600,000.00
<b>TOTAL PROJECT EXPENDITURES</b>	<b>10,359,040.77</b>	<b>16,109,197.34</b>	<b>13,835,306.59</b>	<b>19,585,463.16</b>	<b>(3,476,265.82)</b>	<b>(3,476,265.82)</b>	50,000,000.00
<b>CLOSING CASH BALANCE</b>							
6							
Special Account (EDB Credit)	2,547,668.81	2,547,668.81					
Project Account (GOA)	-	-					
Project Account (Community)	570,652.79	570,652.79					
<b>TOTAL CLOSING CASH</b>	<b>3,118,321.60</b>	<b>3,118,321.60</b>					

Ashot Khachatryan  
Deputy Director of the ATDF - Branch Director

Narine Keryan  
ATDF Branch Chief Accountant

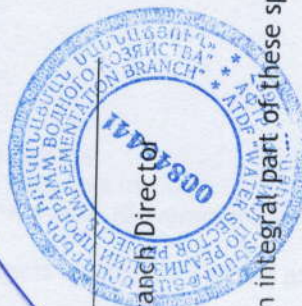
4 June 2021

The notes on pages 7-14 form an integral part of these special purpose project financial statements.



Irrigation System Modernization Project  
EDB CREDIT  
Statement of uses of funds by Project activity  
For the year 31 December 2020  
(Amounts are shown in USD)

Component	Actual		Planned		Variance		PAD
	Reporting year	Cumulative as at 31 Dec 2020	Reporting year	Cumulative as at 31 Dec 2020	Reporting year	Cumulative as at 31 Dec 2020	
Component 1. Conversion of pump-based irrigation to gravity	1,911,158.46	4,782,804.89	1,705,361.14	4,577,007.57	205,797.32	205,797.32	11,880,000.00
Component 2. Rehabilitation of main and secondary canals	2,670,364.64	4,553,009.50	3,735,932.74	5,618,577.60	(1,065,568.10)	(1,065,568.10)	12,040,000.00
Component 3. Upgrading of on-farm irrigation networks of WUAs	5,553,210.31	6,270,105.65	7,593,649.59	8,310,544.93	(2,040,439.28)	(2,040,439.28)	20,260,000.00
Component 4. Project management. Development of institution capacities of WUAs and establishment of pilot WUA Federations	224,307.36	503,277.30	800,363.12	1,079,333.06	(576,055.76)	(576,055.76)	5,820,000.00
<b>Total Project Expenditure</b>	<b>10,359,040.77</b>	<b>16,109,197.34</b>	<b>13,835,306.59</b>	<b>19,585,463.16</b>	<b>(3,476,265.82)</b>	<b>(3,476,265.82)</b>	<b>50,000,000.00</b>



*[Signature]*  
Ashot Khachatryan  
Deputy Director of the ATDF -branch

*[Signature]*  
Narine Keryan  
ATDF Branch Chief Accountant

4 June 2021

The notes on pages 7-14 form an integral part of these special purpose project financial statements.



## 1. General information

### 1.1. The Project

On 16 October 2015 between the Republic of Armenia and the Eurasian Development Bank (EDB) was concluded Credit Agreement, according to which EDB provided a credit to the Republic of Armenia in the amount of 40,000,000 USD.

The Credit is provided for the implementation of "Irrigation System Modernization Project" (the Project).

The Project Effective Date is June 10, 2016. The Completion Date in accordance with General Agreement (annex 2) is June 30, 2021.

On December 21, 2020, according to the decision of Board Eurasian Fund for Stabilization and Development (EFSD), the Project Implementation Closing date is set December 31, 2023. The Grace Period for submitting withdrawal applications for the expenditures incurred before the Project Implementation Closing date is six months following the Project Implementation Closing date.

### 1.2. The Project objectives

The objectives of the Project are to:

- (i) increase the efficiency of irrigation systems;
- (ii) enlarge the irrigated area;
- (iii) develop the managerial potential and increase the technical equipment of WUA, establishment of WUA Federations.

The Project consists of the following components:

Component 1. Conversion of pump-based irrigation to gravity;  
Component 2. Rehabilitation of main and secondary canals;  
Component 3. Upgrading of on-farm irrigation networks of WUAs;  
Component 4. Project management. Development of institution capacities of WUAs and establishment of pilot WUA Federations.

### 1.3. The Project Budget and Financing

The Project is being financed by the following sources:

- EDB Credit - 100% of all expenditures, exclusive of taxes,
- The Government of the Republic of Armenia (Government of RA) - expenditures related taxes,
- Communities - 10% of civil works contracts under part 3 of the project.

Category	EDB Credit	Government of the RA	Community	Total
	USD	USD	USD	USD
1. Goods, works, services, trainings, and PIU operating costs	40,000,000.00	-	-	40,000,000.00
2. Taxes and other Mandatory Payments	-	8,400,000.00	-	8,400,000.00
3. Co-financing of the civil works part 3 of the project	-	-	1,600,000.00	1,600,000.00
<b>Total</b>	<b>40,000,000.00</b>	<b>8,400,000.00</b>	<b>1,600,000.00</b>	<b>50,000,000.00</b>



#### **1.4. Project Implementation**

Until 30 December 2019, the Project was implemented by "Water Sector Projects Implementation Unit" State Agency (the WSPIU) of the Water Committee of the Ministry of Territorial Administration and Infrastructure of the RA.

The activities of the WSPIU were terminated from December 30, 2019 in accordance with the RA Government Decree No. 170-N of February 28, 2019. Further implementation of the ongoing Projects will be continued by the Armenian Territorial Development Fund through its structural subdivision. For that purpose, upon the decision of the ATDF Board of Trustees, Water Sector Projects Implementation Branch of the Armenian Territorial Development Fund (ATDF WSPiB) was established on January 14, 2020.

The ATDF WSPiB's address is: Vardanants blind alley 8, Yerevan 0010, Republic of Armenia.

#### **2. Summary of significant accounting policies**

##### **2.1. Preparation and presentation of financial statements**

The special purpose financial statements are prepared in accordance with the International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting* (IPSAS-Cash Basis), issued by the International Public Sector Accounting Standards Board (IPSASB) within the International Federation of Accountants (IFAC).

The principal accounting policies applied in the preparation of these special purpose financial statements are set out below. These policies have been consistently applied to all the periods presented.

##### **2.2. Cash basis of accounting**

Project financing is recognised as a source of project funds when the cash is received. Project expenditures are recognised as a use of project funds when the payments are made.

##### **2.3. Reporting currency**

The reporting currency of these special purpose financial statements is USD.

The contribution of the Government of RA and expenditures made in local currency, Armenian Dram (AMD), are translated into USD based at the exchange rate defined by the Central Bank of the Republic of Armenia (CBA) at the date of the transaction.

The effect of exchange rate changes on cash held on local currency is reported as separate line item in the statement of cash receipts and payments.

The average exchange rate at currency market issued by the CBA as of 31 December 2019 is 1 USD =479.70 AMD

The average exchange rate at currency market issued by the CBA as of 31 December 2020 is 1 USD =522.59 AMD

##### **2.4. Taxes**

Taxes are paid in accordance with the tax regulations of the Republic of Armenia.

##### **2.5. Budget**

Expenditure budget is created based on actual accumulated expenditures for the last period plus the updated annual budget for the reporting period.



Irrigation System Modernization Project  
EDB CREDIT  
Notes to the special purpose financial statements  
For the year 31 December 2020

3. Summary of Summary Reports and SOEs

For the year ended December 31, 2020.

Application N	Application value date	(1) Goods, works, services, trainings, and PIU operating costs	Total
		(USD)	(USD)
12	15 Sep 2020	414,670.64	414,670.64
13	15 Sep 2020	812,773.75	812,773.75
14	15 Sep 2020	811,392.16	811,392.16
15	27 Oct 2020	4,497,444.41	4,497,444.41
<b>Total</b>		<b>6,536,280.96</b>	<b>6,536,280.96</b>

4. Statement of Special Account

Bank account number	900000901794
Bank	Central Treasury
Bank location	1 Meliq-Adamyany, Yerevan, 0010 Republic of Armenia
Currency	USD

	EDB Credit
	2020
1. Opening balance	4,585,329.36
2. Add: opening discrepancy	-
3. EDB advance/replenishment	6,536,280.96
4. Less: Refund to EDB from SA	-
5. Present outstanding amount advanced to SA	11,121,610.32
6. SA closing balance as at 31.12.2020	2,547,668.81
7. Add: Amount of eligible expenditures paid	8,573,941.51
8. Less: interest earned (if credited to SA)	-
9. Total advance accounted for	11,121,610.32
10. Closing discrepancy (5)-(9)	-



Irrigation System Modernization Project  
EDB CREDIT  
Notes to the special purpose financial statements  
For the year 31 December 2020

5. Statement of Financial Position

The Statement of Financial Position discloses assets, liabilities, and net assets of the Project as at reporting date. It is prepared in accrual basis that is transactions are recognized when they occur (and not only when cash is received or paid).

	note	31.12.2020 USD	31.12.2019 USD
<b>ASSETS</b>			
Cash	6	3,118,321.60	4,864,320.71
Prepayments	7	3,471,684.46	753,165.26
<b>Total assets</b>		<b>6,590,006.06</b>	<b>5,617,485.97</b>
<b>LIABILITIES</b>			
Payables	8	353,699.75	363,399.95
<b>Total liabilities</b>		<b>353,699.75</b>	<b>363,399.95</b>
<b>NET ASSETS</b>			
<b>Cumulative income</b>			
EDB Credit	10.1	16,022,954.07	9,486,673.11
Government of RA	10.2	2,252,539.76	851,031.60
Community	10.3	1,109,796.32	279,694.59
		<b>19,385,290.15</b>	<b>10,617,399.30</b>
<b>Cumulative expenses</b>			
Project expenses		(12,994,105.24)	(5,366,868.37)
		<b>(12,994,105.24)</b>	<b>(5,366,868.37)</b>
Foreign exchange gain/(loss)		(154,878.60)	3,555.09
<b>Total net assets</b>		<b>6,236,306.31</b>	<b>5,254,086.02</b>

6. Cash

	Account held at	Underlying Currency	31.12.2020 USD	31.12.2019 USD
Special account (EDB Credit)	Treasury	USD	2,547,668.81	4,585,329.36
Project account (community)	Treasury	AMD	570,652.79	278,991.35
<b>Total</b>			<b>3,118,321.60</b>	<b>4,864,320.71</b>

7. Prepayments

	31.12.2020 USD	31.12.2019 USD
Civil Works	3,471,684.46	753,165.26
<b>Total</b>	<b>3,471,684.46</b>	<b>753,165.26</b>



Irrigation System Modernization Project  
EDB CREDIT  
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For the year 31 December 2020

8. Payables

	31.12.2020 USD	31.12.2019 USD
Civil Works	353,699.75	332,198.87
Consulting services	-	31,201.08
<b>Total</b>	<b>353,699.75</b>	<b>363,399.95</b>

Expenditure category	Reporting year			Total	EDB Credit	Government of RA	Community RA	At 31 Dec 2020
	EDB Credit	Government of RA	Community					
1. Capital works, services, materials and operating costs	8,575,941.51	13,475,385.36	493,451.45	13,475,385.36	13,475,385.36	2,140,440.43	2,140,440.43	13,475,385.36
2. Taxes and other Mandatory Payments	1,291,647.51	493,451.45	493,451.45	1,291,647.51	1,291,647.51	2,140,440.43	2,140,440.43	1,291,647.51
3. Cost financing of the civil works part 3 of the project								
<b>Total</b>	<b>8,575,941.51</b>	<b>13,475,385.36</b>	<b>493,451.45</b>	<b>13,475,385.36</b>	<b>13,475,385.36</b>	<b>2,140,440.43</b>	<b>2,140,440.43</b>	<b>13,475,385.36</b>



## 9. Project Expenditures

### 9.1 Project expenditures financing per funds



Irrigation System Modernization Project  
EDB CREDIT  
Notes to the special purpose financial statements  
For the year 31 December 2020

9.2 Project expenditure budget execution

Expenditure category	Cumulative Expenditures as at 31 Dec 2020	Total budget	Execution
	USD	USD	%
1. Goods, works, services, trainings and operating costs	13,475,285.26	40,000,000.00	34%
2. Taxes and other Mandatory Payments	2,140,460.63	8,400,000.00	25%
3. Co-financing of the civil works part 3 of the project	493,451.45	1,600,000.00	31%
<b>Total</b>	<b>16,109,197.34</b>	<b>50,000,000.00</b>	<b>32%</b>

10. Financing

10.1 EDB Credit

	Reporting period USD	Cumulative as at 31 Dec 2020 USD
Advances/ (advance recovery)	-	5,000,000.00
SOE and Summary Report	6,536,280.96	11,022,954.07
<b>Total</b>	<b>6,536,280.96</b>	<b>16,022,954.07</b>
 Total financing budget		<b>40,000,000.00</b>
Percentage of finance provided as at 31 Dec 2020		<b>40%</b>

10.2 Government of RoA

	Reporting period USD	Cumulative as at 31 Dec 2020 USD
Financed	1,401,508.16	2,252,539.76
Total financing budget		<b>8,400,000.00</b>
Percentage of finance provided as at 31 Dec 2020		<b>27%</b>

10.3 Community

	Reporting period USD	Cumulative as at 31 Dec 2020 USD
Financed	830,101.73	1,109,796.32
Total financing budget		<b>1,600,000.00</b>
Percentage of finance provided as at 31 Dec 2020		<b>69%</b>



Irrigation System Modernization Project  
EDB CREDIT

ANNEX 1. RECONCILIATION BETWEEN THE AMOUNTS SUBMITTED BY THE PROJECT AND  
DISBURSED BY THE EDB

For the year 31 December 2020

(Amounts are shown in USD)

Expenditure Category	Appl.	Project	EDB	Difference
1. Goods, works, services, trainings and operating costs	12	414,670.64	414,670.64	-
	13	812,773.75	812,773.75	-
	14	811,392.16	811,392.16	-
	15	4,497,444.41	4,497,444.41	-
Total		6,536,280.96	6,536,280.96	-